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Licensing Occupations: How Time and Regulatory Attainment Matter

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the private sector is facilitated by six staff members of the LWIB, who continually call on businesses to inquire about the type of skills businesses require. They also conduct focus groups and pursue other means to obtain and follow current local conditions.

Conclusion

The joint study examined cases in which LWIBs have worked within the flexibility and decentralization of the U.S. workforce system to foster collaboration among local organizations. It observed that there was no one right way to form effective partnerships. Rather, the flexibility of the workforce system allowed LWIBs to bring key stakeholders and organizations together in ways that worked best for job seekers and employers, which can enhance job creation. The study also underscored the benefit of working closely with businesses to understand their needs for qualified workers and to design training curricula that address those needs. Furthermore, WIA's culture of evidence-based policy making and performance outcome monitoring established by WIA workforce programs sets an example for other organizations within the local area to follow.

Note

The assistance of Jonathan Barr and Francesca Froy of the OECD/LEED and Robert Straits of the Upjohn Institute in preparing the full U.S. report is greatly appreciated.

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Licensing Occupations

How Time and Regulatory Attainment Matter

This article highlights some of the findings in the author's new book, Stages of Occupational Regulation: Analysis of Case Studies, *published by the W.E. Upjohn Institute for Employment Research. See the back cover for information on how to order the book.*

George Shultz, the astute academic, businessman, Secretary of Labor, and later premier statesman, opined that from his long years in government service, lags occur with general public policy issues, but that politicians are impatient (Shultz 1995). Occupational licensing generally fits this model, since it is an institution whose effects are not immediately apparent, but rather reveal their efficacy over some time. Specifically, occupational licensing usually grandfathers in practitioners, implements new exams, and develops educational and location-specific requirements so that implementing these policies usually takes many years. Consequently, the labor market or consumer outcomes are not immediately apparent—a longer-run perspective is required to fully understand the wage, price, quality, and distributional effects. An approach that evaluates the various stages of occupational regulation can help capture and illuminate the role that licensing has in labor and service markets.

As I point out in an earlier volume, unions and licensing membership are moving in different directions (Kleiner 2006; Kleiner and Krueger 2013). As shown in Figure 1, occupational licensing has continued to grow in the United States in contrast to the decline of unionization. For example, in the 1950s and early 1960s, less than 10 percent of the workforce required an occupational license to work for pay. However, by 2008, estimates from the Princeton Data Improvement Initiative show that about 29 percent of the workforce required a license from local, state, or federal government to work for pay. With the decline of union membership and the growth of employment in the service sector, workers and their agents (unions or professional associations) have attempted to establish a "web of rules" to regularize work and reduce competition in the field (Dunlop 1958).

Occupations are rarely formed as licensed ones. Occupations evolve, organize, and often select licensing as a method to obtain professionalism, quality, and status, as well as to limit the supply of practitioners. They tax their members through dues and engage in political activities that lead to registration, certification, and eventually licensing. The process of regulation across political jurisdictions often takes years or decades to achieve full licensure. Consequently, new occupations are often in varying stages of the regulatory process as they seek to become regulated by units of government. Since regulation mainly influences new entrants, it would take some time before the full effect of licensing would influence either the individuals in the occupation (in terms of wages and employment) or the consumers of their services. It usually takes some time for individuals who are grandfathered into the occupation, and have less measured human capital than newly regulated practitioners, to retire or leave the job. Occupations at a more mature stage of regulation would be more likely to have the benefits or advantages of the various stages of licensing than those that have recently sought or obtained regulation at different levels of government.

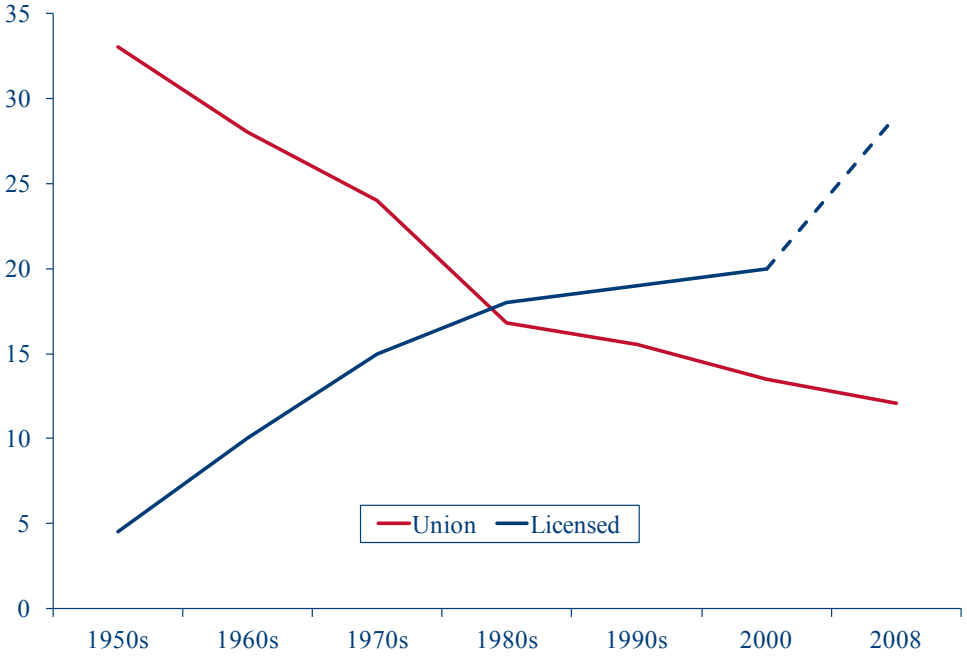
In the book *Stages of Occupational Regulation: Analysis of Case Studies*, I examine seven occupations at various stages of regulation generally moving from low to universal. A goal of the book is to examine a broad variety of occupations that include blue- and white-collar occupations at different stages of occupational regulation by government. The occupations examined

in the book are listed in Figure 2 by the number of states that licensed them in 2007, the starting point of my analysis. They go from interior designers, who are regulated in only three states and the District of Columbia, to dental hygienists and dentists, who are licensed in all states and are required to have a license to do their work. For dentists and dental hygienists, a competition develops between the occupations over who is allowed to supervise and which tasks are permitted for each occupational group. The level of rigor of the regulations for an occupation, and the longer the occupation has been licensed, do matter in key labor market outcomes such as wages and employment.

The central findings using various governmental databases are shown in Table 1. As an occupation progresses from less to more regulation, the influence of licensing becomes larger. The major effects of licensing on wage determination do not become consequential until an occupation is universally licensed for a substantial period of time, and nearly all in the occupation must be licensed. For occupations such as interior designers, preschool teachers, and even mortgage brokers, the influence of occupational licensing is minimal or modest. Of the occupations examined, the largest influence of occupational licensing on wage determination is for dentists and hygienists—virtually all individuals in these occupations must attain licensure. For electricians and plumbers, the wage effects of regulation are modest to moderate, and having state by state licensing does not appear to have an influence on the work-related health and safety of workers as measured by occupational deaths or injuries. For mortgage brokers, having a bonding requirement is modestly associated with higher earnings, but it did not appear to enhance consumer well-being. Similarly, greater regulation of preschool teachers did not raise earnings, but it did have a small negative influence on access to center-based care and had no overall effect on student test scores.

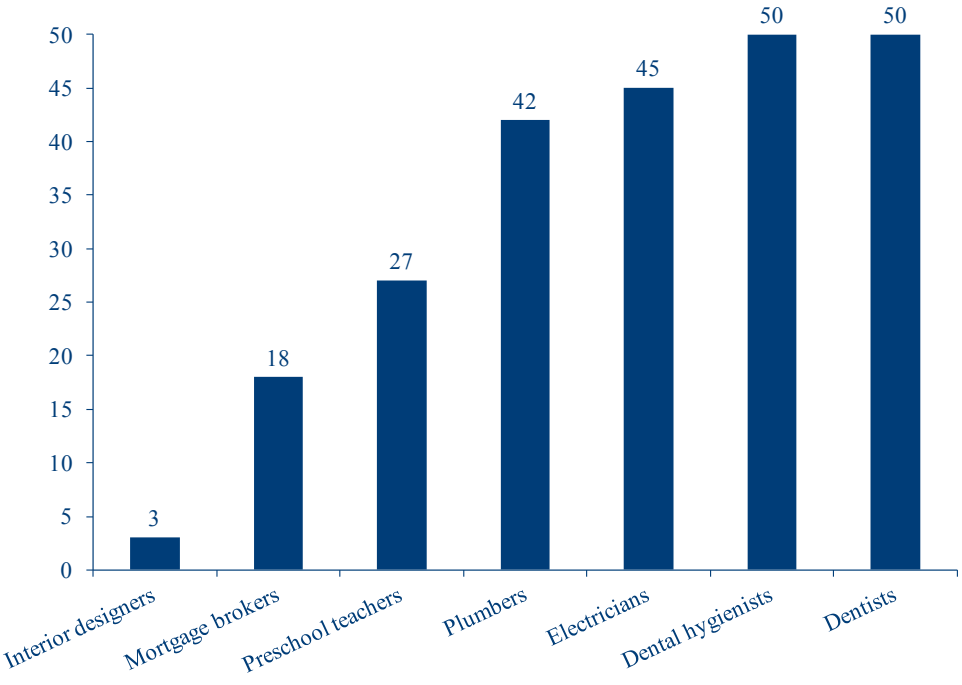
A review of the licensing literature found that for many occupations in the United States, the length of time that the

Figure 1 Trends in Two Labor Market Institutions



NOTE: Dashed line shows the value of estimates from state-level data of licensing from the Gallup and Westat survey results, including licensing by local, state, or federal governments. More than 800 occupations are licensed on at least one level, according to the Council of State Governments.
SOURCE: Licensing data are estimated from the author's surveys, Department of Labor estimates, a Gallup survey, and a Westat survey; union data are from the Current Population Survey.

Figure 2 Number of States Requiring Licensing for Seven Occupations, 2007



SOURCE: Author's tabulation.

Table 1 Summary of Key Findings in the Volume

Occupation	Level of occupational regulation	Labor market effects	Other
Interior designers	Low	None to modest wage and employment effects	State efforts to become universally licensed
Mortgage brokers	Low to moderate	Modest wage and employment effects	Recent moves to gain universal licensing, more regulation has murky effects on consumers
Preschool instructors and related assistants	Moderate	Modest to no wage effects	Movement to universal licensing, little evidence of major influences on academic performance
Electricians and plumbers	High	Moderate wage effects	Movement to make regulations more stringent, little evidence of any influence on worker safety
Dentists and dental hygienists	Universal	Moderate to high wage effects	Relaxed regulations result in gains for hygienists at the expense of dentists

licensing had been in effect mattered and was positive; a national study analyzing UK data found similar results. Further, the key factor in the effects of licensing on wage determination was whether the individual attained a license rather than if the state passed a licensing law generally regulating the occupation. Two occupations that differ in this respect yet illustrate the point are dentists and engineers. Occupational licensing would be expected to have a larger influence on dentists, where almost all individuals who identify themselves as dentists have a license. Only a licensed dentist can perform or supervise most dental procedures for pay by state law. In contrast, for engineers, who are universally covered by licensing laws, only a minority of engineers seeks or obtains a license from the government (Hur, Kleiner, and Wang 2013). Most tasks that engineers perform are not ones that require a license from government. Only a relatively small number of jobs that engineers perform are explicitly regulated by law. Consequently, the impact of licensing on wages and employment are much smaller for engineers than for dentists.

Occupational licensing influences the labor market for licensed and unlicensed practitioners. It affects the ability and costs for consumers to obtain important services. Moreover, it determines the distribution of those services among the well-off and those in or near poverty. It also helps to determine the structure of markets where service market monopolies are provided by government. As the politics of occupational licensing ebbs and flows with economic and political trends, it is important to shine the light on data and analysis to determine both the equity and efficiency aspects through the various stages of the evolution of occupational licensing.

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